

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

To the Retirement Board of the Public Employee Retirement System of Idaho Boise, Idaho:

We have audited the accompanying basic financial statements of the Public Employee Retirement System of Idaho (the System), a component unit of the State of Idaho, as of June 30, 2001, and for the year then ended, listed in the Table of Contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such basic financial statements referred to above present fairly, in all material respects, the financial status of the pension funds and the financial position of the agency fund of the System as of June 30, 2001 and the changes in net assets of the pension funds for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information and the additional supplemental information listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The required supplemental information and the additional supplemental information are also the responsibility of the System's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Investment Section, Actuarial Section, and Statistical Section listed in the Table of Contents are also presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2001 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

(Deloitte & Touche LLP Signature

Boise, Idaho)

November 23, 2001



COMBINING STATEMENT OF PLAN NET ASSETS - PENSION FUNDS AND BALANCE SHEET - AGENCY FUND JUNE 30, 2001 WITH COMPARATIVE TOTALS FOR JUNE 30, 2000

				ä	Pension Funds			Agency Fund Sick Leave/	İ			
		PERSI	Firemen's Retirement	n's ent	PERSI Choice Plan	oice Plan	Idaho Super	Insurance Reserve		Totals	als	
ASSETS		Base Plan	Fund	! _	414(k)	401(k)	Saver - 401(k)	Fund		2001		2000
CASH AND CASH EQUIVALENTS	છ	18,481,798	\$ 22	558,535				\$ 39,643	8	19,079,976	s	2,665,357
INVESTMENTS, AT FAIR VALUE: Fixed income investments:												
Domestic		1,540,672,826	46,560,384	,560,384				55,016,397		1,642,249,607	1,87	1,872,199,151
Idaho commercial mortgages		270,424,991	8,17,	8,172,463						278,597,454	52	222,456,149
Short-term investments Real estate		176,429,761 37,357,224	5,33 1,12	5,331,851 1,128,966						181,761,612 38,486,190	27	276,291,617 51,016,316
Equity Securities: Domestic	.,	2,857,878,904	.96,36	7,422				68,765,573	~	3,013,011,899	3,44	3,446,807,906
International		1,459,602,248	44,110,366	3,366						1,503,712,614	1,40	1,407,501,036
Private equity Mutual funds		112,769,220	3,40	3,407,977	\$ 52,970,461	\$ 2,545,082	\$ 23,719,926			116,177,197 79,235,469	11	116,851,274 20,900,925
Total investments		6,481,257,586	195,868,870	3,870	52,970,461	2,545,082	23,719,926	123,781,970		6,880,143,895	7,42	7,427,344,469
RECEIVABLES:		000	r L	9						0.00	ì	, , , , , , , , , , , , , , , , , , ,
investments sold Contributions Interest and dividends		635,232,433 18,663,325 32,437,206	19,541,136 522,892 997,839	,541,136 522,892 997,839						054,77,509 19,186,217 33,435,045	1,54 1	1,543,155,850 12,878,380 36,838,008
Total receivables		686,332,964	21,061,867	1,867						707,394,831	1,59	1,592,872,238
ASSETS USED IN PLAN OPERATIONS, NET (Note 5)		8,805,493								8,805,493		8,332,412
DUE FROM OTHER FUNDS								1,129,875	10	1,129,875		1,089,150
RETIREE PAYROLL IN PROCESS			3,76	3,767,201						3,767,201	_	17,591,235
OTHER PREPAIDS												440,071
Total Assets	မှာ	7,194,877,841	\$ 221,256,473	5,473	\$ 52,970,461	\$ 2,545,082	\$ 23,719,926	\$ 124,951,488	မှာ	7,620,321,271	\$ 9,05	9,050,334,932

(continued)

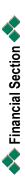


COMBINING STATEMENT OF PLAN NET ASSETS - PENSION FUNDS AND BALANCE SHEET - AGENCY FUND JUNE 30, 2001 WITH COMPARATIVE TOTALS FOR JUNE 30, 2000

				a .	Pension Funds			Agency Fund Sick Leave/				
		PERSI	"	Firemen's Retirement	PERSI Choice Plan	oice Plan	Idaho Super	Insurance Reserve		Totals	<u>s</u>	
LIABILITIES AND FUND BALANCE		Base Plan		Fund	414(k)	401(k)	_ Saver - 401(k)	Fund	20	201		2000
LIABILITIES: Due to state agencies and school districts Accrued liabilities Benefits and refunds payable Due to other funds Investments purchased	8	5,260,577 482,855 1,129,875 673,112,503	₩	149,665				\$ 124,922,123 29,365	\$ 124 5 1 693	124,922,123 5,439,607 482,855 1,129,875 693,818,912	& - 6	122,202,311 5,174,100 580,203 1,089,150 626,740,085
Total liabilities		679,985,810		20,856,074				\$ 124,951,488	825	825,793,372	1,7	1,755,785,849
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (see supplemental schedules of funding progress)	မှ	\$ 6,514,892,031	\$	200,400,399	\$ 52,970,461	\$ 2,545,082	\$ 23,719,926		\$ 6,794,527,899		\$ 7,2	\$ 7,294,549,083

See notes to financial statements.

(concluded)



COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION FUNDS YEAR ENDED JUNE 30, 2001 WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2000

			Pension Funds					
	PERSI	Firemen's Retirement	PERSIC	PERSI Choice Plan	Idaho Super	ř	Totals	
	Base Plan	Fund	414(k)	401(k)	Saver - 401(k)	2001	2000	
ADDITIONS: Contributions: Members Employers Transfers in	\$ 121,336,028 120,220,992 11,176	\$ 285,986 9,226,932	\$ 57,006,726	\$ 2,549,366	\$ 5,911,090	\$ 127,533,104 131,997,290 57,024,773	\$ 118,27	118,270,877
Total contributions	241,568,196	9,512,918	57,006,726	2,556,237	5,911,090	316,555,167	309,80	309,805,821
Investment income: Net appreciation (depreciation) in fair value of investments Interest, dividends and other investment income Less: investment expenses	(642,205,307) 220,493,127 (24,942,815)	(19,755,637) 6,782,850 (767,29 <u>5</u>)	(3,332,679)	(3,264)	(3,927,157)	(669,224,044) 228,806,992 (25,710,110)	628,78 225,53 (23,9]	628,751,044 225,528,858 (23,976,292)
Net investment income	(446,654,995)	(13,740,082)	(3,331,742)	(3,237)	(2,397,106)	(466,127,162)	830,30	830,303,610
Other, net	386,742					386,742	3(301,280
Total additions	(204,700,057)	(4,227,164)	53,674,984	2,553,000	3,513,984	(149,185,253)	1,140,410,711	10,711
DEDUCTIONS: Benefits and refunds paid to plan members and beneficiaries Administrative expenses Transfers out	273,840,964 5,830,224 56,560,935	13,196,384	243,588 3,968 456,967	1,047	654,904 40,079	287,936,887 5,874,271 57,024,773	245,55	245,521,160 4,283,525
Total deductions	336,232,123	13,196,384	704,523	7,918	694,983	350,835,931	249,8(249,804,685
INCREASE (DECREASE) IN NET ASSETS	(540,932,180)	(17,423,548)	52,970,461	2,545,082	2,819,001	(500,021,184)	990,068	890,606,026
NET ASSETS HELD IN TRUST, BEGINNING OF YEAR	7,055,824,211	217,823,947			20,900,925	7,294,549,083	6,403,943,057	43,057
NET ASSETS HELD IN TRUST, END OF YEAR	\$ 6,514,892,031	\$ 200,400,399	\$ 52,970,461	\$ 2,545,082	\$ 23,719,926	\$ 6,794,527,899	\$ 7,294,549,083	49,083

See notes to financial statements.



NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2001

1. GENERAL DESCRIPTION OF THE FUNDS

General - The Public Employee Retirement System of Idaho (the System) is the administrator of four pension funds including two defined benefit retirement plans, the Public Employee Retirement Fund Base Plan (PERSI) and the Firemen's Retirement Fund (FRF); and two defined contribution plans, the Idaho Super Saver, State of Idaho 401(k) Plan and the Public Employee Retirement Fund Choice Plan. In addition, the System administers one agency fund, the Sick Leave/Insurance Reserve Fund.

Reporting Entity - The System is a component unit of the State of Idaho and is included in the State of Idaho Comprehensive Annual Financial Report. The basic financial statements of the System include the financial activities of all of the above funds. A retirement board (the Board), appointed by the Governor and confirmed by the state senate, manages the System, which includes selecting the funding agents and establishing funding policy.

Defined Benefit Retirement Plans - PERSI and FRF are both cost-sharing, multiple-employer defined benefit retirement plans that provide benefits based on members' years of service, age, and highest average salary. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries.

Statutes governing PERSI are Title 59, Chapter 13 and Title 50, Chapter 15 of <u>Idaho Code</u>. Statutes governing FRF are Title 72, Chapter 14 of <u>Idaho Code</u>.

Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. Effective June 30, 2000, the annual service retirement allowance for each month of credited service was 2.0% (2.3% police/firefighters) of the average monthly salary for the highest consecutive 42 months.

State agencies, school districts, cities, counties, highway districts, water and sewer districts, and other political subdivisions contribute to the System. As of June 30, 2001, the number of participating employer units in PERSI was:

Cities	139
School districts	124
Highway and water districts	115
State subdivisions	99
Counties	39
O ther	129
	645



As of June 30, 2001, the number of benefit recipients and members in the System consisted of the following:

Members, retirees and beneficiaries currently receiving benefits during the fiscal year and terminated employees entitled to benefits but not yet receiving them:

Members:

Active 62,125 Terminated and vested 6,585

Retirees and beneficiaries 23,253

FRF has 23 participating employer units all consisting of fire departments participating in PERSI. As of June 30, 2001, there were 103 active members and 526 retired members or beneficiaries collecting benefits from FRF. The FRF covers a closed group of firefighters who were hired before October 1, 1980 and who receive benefits in addition to those provided under PERSI. The cost of these additional benefits is paid by FRF member and employer contributions and receipts from a fire insurance premium tax.

The benefit payments for PERSI and FRF are calculated using a benefit formula adopted by the Idaho Legislature. PERSI is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The Retirement Board has the authority to provide higher PERSI cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature. The cost of living increase for the FRF is based on the increase in the statewide average firefighter's wage.

PERSI and FRF benefits are funded by contributions from members and employers and earnings from investments. Additional FRF funding is obtained from receipts from a state fire insurance premium tax. Member and employer contributions are paid as a percentage of applicable member compensation. PERSI member contribution rates are defined, by state law, as a percentage of the employer contribution rate. FRF member contribution rates are fixed by state law. Employer contribution rates are recommended by periodic actuarial valuations and are subject to the approval of the Retirement Board and limitations set forth in state statute. Valuations are based on actuarial assumptions, the benefit formulas, and employee groups of the System.

Costs of administering the fund are financed through the contributions and investment earnings of the System.

Upon termination of employment, accumulated member contributions plus interest, accrued at 12.86% (11.11% prior to January 1, 2001) compounded monthly per annum, are refundable. Withdrawal of such accumulated contributions results in forfeiture of the member's accrued benefit; however, state law does include provisions for reinstatement of forfeited service upon repayment of the accumulated contributions plus interest.

Defined Contribution Retirement Plans - The PERSI Choice Plan and the Idaho Super Saver, State of Idaho 401(k) Plan are both defined contribution retirement plans.

Statutes governing these plans are <u>Idaho Code</u>, Title 59, Chapter 13. Participants direct their investment mix without restriction and may elect to change their salary deferral every pay period.

The *PERSI Choice Plan* is a new defined contribution pension plan made up of a qualified 401(k) component and a 414(k) component. The assets of the components of this plan are commingled. The 401(k) portion of the Plan is open to all active PERSI Base Plan members and was established February 1, 2001. On May 1, 2001, this plan became open to voluntary employer matching contributions at rates determined by the employers. Beginning July 1, 2001, employees may make tax-deferred contributions at 1 – 23% of their gross salary. The 414(k) portion of the Plan was established for Gain Sharing allocations from PERSI. The Gain Sharing amount (if any) is based on funding levels in the PERSI Base Plan. Eligibility for Gain Sharing requires twelve months of active PERSI membership as defined in Idaho statutes and



PERSI rules. On February 1, 2001, all eligible PERSI Base Plan members who were active as of June 30, 2000, and eligible to receive Gain Sharing contributions, received an allocation.

The System entered into a contract with Dreyfus Retirement Services (now called Mellon Employee Benefit Solutions), the plan recordkeeper, for services relating to eleven investment options, which are mutual or collective funds and include the PERSI Total Return Fund, seven equity funds, two fixed income funds, and a stable value fund. Participants may allocate their assets in 1% increments among these options; however, if no allocation preference is indicated, a default investment election to the PERSI Total Return Fund is made.

The PERSI Choice Plan has 645 employer units eligible to have participating employees. As of June 30, 2001, there were 50,638 participants in the PERSI Choice Plan. The administrative expenses of the Plan, most of which are paid to Dreyfus, are funded by PERSI.

The *Idaho Super Saver, State of Idaho 401(k) Plan* is a qualified 401(k) defined contribution pension plan, open to all employees of the State of Idaho. Through September 2001, this plan allowed participants to make tax-deferred contributions at 1 – 23% of their gross salary.

This program was originally organized to provide investment management services to state employees. The System entered into a contract with Zurich Scudder, Inc. (Scudder), the plan custodian and recordkeeper, for services relating to nine investment options managed by Scudder that include U.S. Treasury Money Mutual Fund, Income Mutual Fund, Balance Mutual Fund, and six equity mutual funds.

The Plan has 99 employer units eligible to have participating employees. As of June 30, 2001, there were 3,478 participants in the Idaho Super Saver 401(k) Plan. The administrative expenses of the Plan, most of which are paid to Scudder, are funded by the participants of the Plan.

Because of the addition of the PERSI Choice Plan, the Idaho Super Saver 401(k) Plan will be eliminated. In October 2001, this 401(k) plan will be combined or rolled into the PERSI Choice Plan.

Sick Leave/Insurance Reserve Fund - Statutes governing these programs are <u>Idaho Code</u>, Sections 67-5339, 33-1216 and 33-1228.

School districts and state agencies in Idaho provide payment of postretirement health insurance premiums on behalf of former employees based on unused accumulated sick leave at their retirement date. The System acts as an agent for these funds on behalf of the employers, who fund the program by remitting a percentage of payroll to the System to cover future insurance premiums. Employers are responsible for any unfunded benefit obligations.

School District Employees - For school district employees, the unused sick leave amount available for benefit is based on one-half of their sick leave balance and rate of compensation at retirement.

State Employees - State employees are limited to the number of allowable hours of sick leave they may use as part of the unused sick leave program as follows:

Credited Hours of State Service	Maximum Allowable Sick Leave Hours
0 - 10,400 (0 - 5 years)	420
10,401 - 20,800 (5 - 10 years)	480
20,801 - 31,200 (10 - 15 years)	540
31,201 + (15 years or more)	600

Members may use one-half of sick leave hours accrued up to the allowable maximum multiplied by their rate of compensation at retirement.



The rate for state agency and school district contributions was .65% and 1.15% of covered salary at June 30, 2001, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The System's basic financial statements are prepared utilizing the accrual basis of accounting for the pension funds and the modified accrual basis of accounting for the agency fund. For the financial statements of the pension funds, employee and employer contributions are recognized as revenues in the period in which employee services are performed, investment income is recognized when earned, and benefit payments and refunds and other expenses are recorded when incurred. The pension funds are accounted for on a flow of economic resources measurement focus. The System adheres to Statement No. 25 of the Governmental Accounting Standards Board (GASB No. 25), Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

Investments - The System's investments are presented at fair value. Purchases and sales are recorded at the trade date. Investments held by PERSI and FRF are commingled.

The Board utilizes and directs individual fund managers to provide whatever investment management and custodial functions the Board has determined best achieves the System's investment objectives. Each fund manager is generally granted full discretion in making investment decisions, within asset allocation policy, portfolio policy, and other special restrictions set by the Board. The Board monitors overall investment performance and periodically evaluates the performance of each fund manager. The Board in its administration of the System and management of the investment program is guided by the Idaho Uniform Prudent Investor Act, Sections 68-501 through 68-514 of the <u>Idaho Code</u> and of fiduciary responsibilities in the <u>Idaho Code</u>, Section 59-1301, and is empowered in its sole discretion to limit, control, and designate the types and amounts of investments.

The fair value of investments is based on published market prices and quotations from major investment brokers when available. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments has been estimated based on independent appraisals. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximate market value.

The System purchases forward contracts for certain international investments and United States agency-guaranteed collateralized mortgage obligations for the purpose of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure. The System does not incur any costs for forward contracts until the settlement date. Future potential obligations for the forward contracts are not recognized until the contract expiration date.

Assets used in Plan Operations - These assets represent buildings and computer software development costs used by the System and are recorded at cost. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. The estimated useful life for buildings is 30 years. The estimated useful life of the computer software development costs is five years.

"Totals" - The information as of and for the year ended June 30, 2000, presented in the "Totals" column on the accompanying combining basic financial statements, does not present consolidated financial information and is not necessary for a fair presentation of the basic financial statements but is presented only to facilitate financial analysis and for comparison purposes.

New Accounting Standards - The System has adopted Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, effective July 1, 2000. The adoption of Statement No. 33 did not have an impact on the financial status of the pension funds, the financial position of the agency fund, and the changes in net assets of the pension funds.

The Governmental Accounting Standards Board has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The System has not completed the process of evaluating the impact that will result from adopting Statement No. 34 and the effects it will have on the financial status of the pension funds, the financial position of the agency fund, and the changes in net assets of the pension funds. The requirements of this statement are effective for the fiscal year beginning July 1, 2001.

3. CASH AND CASH EQUIVALENTS

The System's cash and cash equivalents are deposits at financial institutions. Such deposits for the year ended June 30, 2001 are categorized below to give an indication of the level of collateral risk assumed by the System at yearend. Category 1 includes deposits that are insured or collateralized with securities held by the System or its agent in the System's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in the System's name. Category 3 includes uninsured deposits that are uncollateralized. The carrying amount of deposits, which approximates the bank balances, by such categories at June 30, 2001, consisted of the following:

Category 1	\$	100,000
Category 2		-
Category 3		17,262,015
Total	\$	17,362,015
Total	$\overline{\Phi}$	11,302,013

The following is a reconciliation of the amounts recorded as deposits on the combining statement of plan net assets and the amounts categorized above as deposits:

Deposits reported on combining statement of plan net assets	\$ 19,079,976
Less: deposits held by the State Treasurer not categorized	1,717,961
	·
Total deposits categorized	\$ 17,362,015

4. INVESTMENTS

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 2001. Category 1 includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the System's name; or by the counterparty's trust department or agent but not in the System's name.



	 Investment Ris	k Catego	ry	_	
	1	2	3		Total
Fixed income investments Domestic equities International equities	\$ 1,614,145,063 2,944,246,326 1,503,712,614	None None None	None None None	\$	1,614,145,063 2,944,246,326 1,503,712,614
	\$ 6,062,104,003				6,062,104,003
Investments not subject to categorization due to their nature: Pooled short-term investment funds Idaho commercial mortgages Real estate Private equity Mutual fund holdings in 401(k) plan Index fund and fixed income fund holdings in Agency Fund				_	181,761,612 278,597,454 38,486,190 116,177,197 79,235,469 123,781,970 818,039,892
Total investments				\$	6,880,143,895

For the year ended June 30, 2001, Mellon Trust was the global custodian for the majority of the investments of the combined PERSI, FRF, and PERSI Choice Plan. The pooled short-term investment funds are bank-maintained collective investment funds established under Massachusetts law pursuant to a Declaration of Trust dated February 27, 1967, as amended. They maintain their tax-exempt status under Revenue Ruling 81-100 and are exempt from registration as mutual funds under Section 3(c)(11) of the Investment Company Act of 1940. Participation is limited to qualified employee benefit plans and government plans for which Boston Safe Deposit Trust Company, or its bank affiliates, maintain a trust, agency or custody relationship. The fair value of the position in the external investment pool for non-SEC registered investments is the same as the value of the pool shares.

Net appreciation in fair value of investments includes realized and unrealized gains and losses on investments during the year. The calculation of net realized gain on sale of investments is independent of the calculation of net appreciation in fair value of investments. Net unrealized gain in fair value of investments sold in the current year, which had been held for more than one year, are included in net appreciation in fair value of investments as reported in prior years and the current year. Components of net appreciation in the fair value of investments are as follows:

		PERSI Base Plan		FRF	c	PERSI Choice Plan		daho Super Saver 401(k)
Net realized gain (loss) on sale of investments	\$	1,474,282	\$	45,352	\$	(29.680)	\$	(149,769)
Net unrealized gain (loss) in fair value of investments	_	(643,679,589)	_	(19,800,989)	_	(3,306,263)	_	(3,777,388)
Net appreciation (depreciation) in fair value of investments	\$	(642,205,307)	\$	(19,755,637)	\$	(3,335,943)	\$	(3,927,157)

The System has entered into forward foreign exchange contracts to purchase or sell currency at various dates in the future at a specific price. The value of foreign currency to be purchased or sold fluctuates continuously. As such, it is possible that the foreign currency market price at the specified time to purchase or sell may be lower than the price at which the System is committed to buy or sell. The System could sell the forward contract at a loss, or if it were to

continue to hold the contract, the System may make a termination payment to the counterparty to cancel its obligation under the contract and then buy the currency on the open market. The System is also exposed to the failure of the counterparty to fulfill the contract. The terms of the contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should the System have to purchase currency on the open market. Unrealized gains of \$10,290,668 at June 30, 2001 were recognized, which represents the gain which would occur from executing forward foreign exchange contracts at June 30, 2001.

5. ASSETS USED IN PLAN OPERATIONS

Assets used in plan operations at June 30, 2001 consist of the following:

Buildings and improvements Less: accumulated depreciation	\$ 5,410,930 (1,916,672)
	3,494,258
Computer software development costs	6,347,805
Less: accumulated amortization	(1,036,570)
	5,311,235
	\$ 8,805,493

Depreciation expense on the buildings and improvements for the year ended June 30, 2001 is \$151,790. Amortization expense included in administrative expenses for the year ended June 30, 2001 is \$678,063.

6. CONTRIBUTIONS

The System's funding policy for PERSI and FRF is determined by the Board within limitations, as defined by Idaho law. The funding policy provides for periodic employer contributions at actuarially determined rates, that expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the Entry Age Actuarial Cost Method for PERSI and a modified aggregate funding method for FRF. Under the Entry Age Actuarial Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. FRF amortizes the difference between the value of the FRF benefits not provided by PERSI and the FRF assets over the earnings of all firemen. PERSI amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. FRF amortizes any unfunded liability based on a level dollar amount. The maximum amortization period for PERSI permitted under Section 59-1322, Idaho Code, is 25 years. The maximum amortization period for FRF permitted under Section 59-1394, Idaho Code, is 50 years. The payroll for employees covered by PERSI and FRF was approximately \$1,938,000,000 and \$32,000,000, respectively.

Actuarial valuations of PERSI and FRF are performed annually. The last valuations were performed as of July 1, 2001.

Normal cost is 14.74% of covered payroll and the amount available to amortize the unfunded actuarial liability is 1.04% of covered payroll for PERSI. There is no normal cost associated with FRF, and all contributions to FRF are available to pay benefits and reduce the unfunded actuarial liability. At November 1, 1997, the Board temporarily reduced



contribution rates by an aggregate total of 3%. At November 1, 1998, the Board made a 1% permanent rate reduction and a 2% temporary rate reduction through October 31, 1999. At September 28, 1999, the Board extended the 2% temporary rate reduction through October 31, 2000. At July 1, 2000, the Board adopted the existing rates and removed the temporary rate designation. The contribution rates for the year ended June 30, 2001, are as follows:

Employee Group	Employer	Employee
PERSI:		
General	9.77 %	5.86 %
Police and fire	10.01 %	7.21 %
ORP employees of higher education:		
Colleges and universities	3.03 %	
Junior colleges	3.83 %	

FRF employer and employee contribution rates for firemen hired before October 1, 1980 are 25.89% and 4.24%, respectively, in addition to the PERSI Police and Fire rates shown above. The employer contribution rate for firemen hired after October 1, 1980 is 17.24%, in addition to the PERSI Police and Fire rate shown above.

7. COMMITMENTS

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenditures. Accordingly, approximately \$931,000 of outstanding purchase orders and purchase commitments are encumbered by the System but not reported in the basic financial statements at June 30, 2001.



SUPPLEMENTAL SCHEDULES OF FUNDING PROGRESS PUBLIC EMPLOYEE RETIREMENT FUND AND FIREMEN'S RETIREMENT FUND FOR FISCAL YEARS 1996 - 2001 (Dollars in millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) (a.)	(3) PV of Future ORP Contributions	(4) Unfunded AAL (UAAL) (2) - (1) - (3) (b.)	(5) Funded Ratios (1) : [(2) - (3)] (c.)	(6) Annual Covered Payroll (d.)	(7) UAAL as a Percentage of Covered Payroll (4):(6)
PERSI							
July 1, 1996 July 1, 1997 July 1, 1998 July 1, 1999 July 1, 2000 July 1, 2001	\$ 3,761.2 4,609.8 5,488.2 6,171.9 7,032.9 6,492.8	\$ 4,461.5 4,801.9 5,060.0 5,536.8 6,105.1 6,751.3	\$ 60.8 63.2 65.7 68.9 70.5 72.2	\$ 639.5 128.9 (493.9) (704.0) (998.3) 186.3	85.5 % 97.3 109.9 112.9 116.5 97.2	\$ 1,497.4 1,575.5 1,627.7 1,733.5 1,827.2 1,975.3	42.7 % 8.2 (30.3) (40.6) (54.6) 9.4

- (a.) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (b.) Actuarial accrued liabilities less actuarial value of assets and present value of future ORP contributions does not include the value of the discretionary COLA and Gain Sharing, both of which were granted after the valuation date.
- (c.) Funded Ratio is the ratio of the actuarial value of assets over the actuarial accrued liabilities less the present value of future ORP contributions.
- (d.) Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

Actuarial Valuation Date (a.)	(1) Actuarial Market Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratios (1) : (2)	(5) Annual Covered Payroll (b.)	(6) UAAL as a Percentage of Covered Payroll (3): (5)
FRF						
July 1, 1996	\$ 132.1	\$ 246.7	\$ 114.6	53.5 %	\$ 24.6	465.9 %
July 1, 1997	132.1	246.7	114.6	53.5	24.6	465.9
July 1, 1998	179.0	284.0	105.0	63.0	28.0	375.0
July 1, 1999	179.0	284.0	105.0	63.0	28.0	375.0
July 1, 2000	217.8	293.4	75.6	74.2	30.8	245.5
July 1, 2001	200.4	316.2	115.8	63.4	32.9	352.0

- (a.) FRF actual valuations were performed biennially through July 1, 1999, and annually thereafter.
- (b.) Annual covered payroll includes compensation paid to all firemen hired prior to October 1, 1980. Annual Covered Payroll differs from Active Member Valuation Payroll, which is an annualized compensation of only those members who were active on the actuarial valuation date.



SUPPLEMENTAL SCHEDULES OF EMPLOYER CONTRIBUTIONS PUBLIC EMPLOYEE RETIREMENT FUND AND FIREMEN'S RETIREMENT FUND FOR FISCAL YEARS 1996 - 2001 (Dollars in millions)

				PERSI					FRF		
			Employe	er Contribution	ıs		Er	nployer C	ontributions	(c.)	
Year		Total		Annual			Total	Δ	nnual		_
Ended	Employer		er Required		Percentage	Employer		Required		Percentage	
June 30	Contributions (Statutory) (a.)		Contribution (ARC) (b.)	Contributions	Con	Contributions		tribution	Contributions	Contributions	
1996	\$	176.5	\$	176.4	100.1 %	\$	7.25	\$	7.25	100.0 %	
1997		185.9		185.9	100.0		7.48		9.45	79.2	
1998		172.3		172.3	100.0		8.00		9.45	84.7	
1999		173.2		173.2	100.0		8.57		8.64	99.1	
2000		182.9		155.7	117.5		8.67		8.64	100.4	
2001		120.2		152.3	129.9		9.23		6.27	147.3	

- (a.) For 2001, actual cash contributions of \$120,220,992 do not include \$77,690,500 of gain sharing credits.
- (b.) Employer contributions are made as a percentage of actual payroll in accordance with statute and the Board's Funding Policy. Thus, the required employer contributions set by both statute and the Board's Funding Policy may differ from the computed ARC employer contribution rate for GASB disclosure purposes. For PERSI, the Annual Required Contribution (ARC) is equal to the normal cost rate minus a 25-year amortization of any Funding Reserve amount or plus a 25-year amortization of any UAAL amount. For FRF, the Annual Required Contribution (ARC) is equal to the normal cost rate plus a 35-year amortization payment of the UAAL amount for 2001.
- (c.) FRF actuarial valuations were performed biennially through July 1, 1999, and annually thereafter.



NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES YEAR ENDED JUNE 30, 2001

1. ACTUARIAL INFORMATION

The information presented in the required supplemental schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation is as follows:

	PERSI	FRF
Valuation date	July 1, 2001	July 1, 2001
Actuarial cost method	Entry age actuarial cost	Entry age actuarial cost
Amortization method	Level percentage of projected payroll	Level dollar amount
Remaining amortization period	10.2 years - Open	40 years from 1996 - Closed
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	8.00 %	8.00 %
Projected salary increases	5.25 %	5.25 %
Postretirement benefit increase	1.00 %	5.25 %
Implied price inflation rate	4.00 %	



COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND YEAR ENDED JUNE 30, 2001

ASSETS	Balance June 30, 2000	Additions	Deductions	Balance June 30, 2001	
CASH	\$ 20,837	\$ 13,930,474	\$ 13,911,668	\$ 39,643	
INVESTMENTS, AT FAIR VALUE	121,107,732	2,674,238		123,781,970	
DUE FROM OTHER FUNDS	1,089,150	13,939,239	13,898,514	1,129,875	
Total assets	\$ 122,217,719	\$ 30,543,951	\$ 27,810,182	\$ 124,951,488	
LIABILITIES					
DUE TO STATE AGENCIES AND SCHOOL DISTRICTS	\$ 122,202,311	\$ 8,610,437	\$ 5,890,625	\$ 124,922,123	
PAYABLES AND ACCRUED LIABILITIES	15,408	65,080	51,123	29,365	
Total liabilities	\$ 122,217,719	\$ 8,675,517	\$ 5,941,748	\$ 124,951,488	



SCHEDULE OF INVESTMENT EXPENSES FOR THE YEAR ENDED JUNE 30, 2001

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INVESTMENT AND RELATED SERVICES:		
Baring Asset Management, Inc.	\$	1,281,695
Credit Suisse Asset Management		540,795
Bloomberg LP		23,639
Brandes Investment Partners LP		1,180,420
Chadwick, Saylor & Co., Inc.		100,000
Chisholm Partners		442,789
Columbus Circle Investors, Inc.		2,271,675
D.B. Fitzpatrick & Co., Inc.		1,360,603
Dorn, Helliesen & Cottle		324,000
Dreyfus Retirement Services		711,911
First Security Bank		48,148
Furman Selz Investments		116,353
Galen Associates		302,600
Genesis Asset Managers, Ltd.		679,609
Goense Bounds & Partners LP		64,000
Hamilton Lane Advisors, Inc.		173,768
Harvest Partners, Inc.		(55,301)
Lend Lease Rosen		1,007,124
Littlejohn & Company		382,540
McCown DeLeeuw & Company		391,757
Mellon Capital Management		607,912
Mellon Trust		1,768,119
MFS Institutional Advisors, Inc.		777,242
Mountain Pacific Investment Advisors, Inc.		713,856
Pareto Partners		810,420
Providence Investments		932,497
Prudential Investments		476,239
Rowe Price International, Inc.		1,018,708
Saugatuck Capital Company		260,645
Schroder Capital Management International, Inc.		1,235,789
State Street Global Advisors		262,711
TCW London International, Ltd.		1,079,853
Tukman Capital Management, Inc.		1,307,575
Wells Fargo Bank		15,719
Zesiger Capital Group		1,424,366
Zurich Scudder Investments, Inc.		909,323
Zanon ocador invocanono, ino.	-	303,020
		04 040 000
		24,949,099
CONSULTING SERVICES:		
Calhoun Law Group		18,100
Deloitte & Touche LLP		38,000
Foster, Pepper, Shefelman PLLC		250,727
Milliman, Inc.		358,259
William M. Mercer, Inc.		95,925
		761,011
	\$	25,710,110
	<u>*</u>	



ADMINISTRATIVE EXPENSES YEAR ENDED JUNE 30, 2001

	PERSI Base Plan	PERSI Choice Plan	ldaho Super Saver 401(k)
PORTFOLIO RELATED EXPENSES:			
Personnel expenses	\$ 263,232		
Operating expenses	82,817		
Capital outlay	17,019		
	363,068		
OTHER ADMINISTRATIVE EXPENSES:			
Personnel expenses	2,327,323		
Operating expenses	2,147,415	\$ 3,968	\$ 40,079
Capital outlay	162,565		
Building depreciation expense	151,790		
Software amortization expense	678,063		
	5,467,156	3,968	40,079
	\$ 5,830,224	\$ 3,968	\$ 40,079



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Retirement Board of the Public Employee Retirement System of Idaho Boise, Idaho:

Deloitte & Touche

We have audited the financial statements of the Public Employee Retirement System of Idaho (the System) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 23, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Retirement Board and management and is not intended to be and should not be used by anyone other than these specified parties.

(Deloitte & Touche LLP Signature

Boise, Idaho)

November 23, 2001